

**REPORT OF THE AUDIT OF THE
FORMER JACKSON COUNTY
SHERIFF'S SETTLEMENT – 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER JACKSON COUNTY
SHERIFF'S SETTLEMENT – 2010 TAXES**

**For The Period
April 16, 2010 Through December 31, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2010 Taxes for the former Jackson County Sheriff for the period April 16, 2010 through December 31, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,565,144 for the districts for 2010 taxes, retaining commissions of \$105,247 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$2,458,852 to the districts for 2010 taxes. Refunds of \$502 are due to the former Sheriff from the taxing districts.

Report Comments:

2010-01 The Former Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly
2010-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of December 1, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$668,751

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable William Smith, Jackson County Judge/Executive

Honorable Tim Fee, Former Jackson County Sheriff

Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the former Jackson County Sheriff's Settlement – 2010 Taxes for the period April 16, 2010 through December 31, 2010. This tax settlement is the responsibility of the former Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Jackson County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through December 31, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable William Smith, Jackson County Judge/Executive
Honorable Tim Fee, Former Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The Former Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly
2010-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 19, 2011

JACKSON COUNTY
TIM FEE, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2010 TAXES

For The Period April 16, 2010 Through December 31, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 161,552	\$ 761,075	\$ 1,408,153	\$ 294,169
Tangible Personal Property	7,310	41,632	63,713	33,081
Fire Protection	1,517			
Increases Through Exonerations	12	64	102	21
Current Year Franchise Billed	32,228	179,949	280,912	
Prior Year Franchise Billed	669	3,702	5,120	
Additional Billings	139	600	1,065	248
Limestone, Sand and Mineral Reserves	331	1,558	2,889	603
Adjusted to Sheriff's Receipt	664	(137)	(272)	(65)
Gross Chargeable to Sheriff	<u>204,422</u>	<u>988,443</u>	<u>1,761,682</u>	<u>328,057</u>
<u>Credits</u>				
Exonerations	1,182	5,498	10,177	2,126
Discounts	2,295	10,809	19,773	4,361
Incoming Sheriff's Official Receipt	<u>40,912</u>	<u>191,318</u>	<u>353,087</u>	<u>75,922</u>
Total Credits	<u>44,389</u>	<u>207,625</u>	<u>383,037</u>	<u>82,409</u>
Taxes Collected	160,033	780,818	1,378,645	245,648
Less: Commissions *	<u>6,801</u>	<u>32,860</u>	<u>55,146</u>	<u>10,440</u>
Taxes Due Districts	153,232	747,958	1,323,499	235,208
Taxes Paid	153,181	747,762	1,322,834	235,075
Refunds (Current and Prior Year)	<u>97</u>	<u>450</u>	<u>828</u>	<u>172</u>
Refunds Due Sheriff		**		
as of Completion of Audit	<u>\$ (46)</u>	<u>\$ (254)</u>	<u>\$ (163)</u>	<u>\$ (39)</u>

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2010 TAXES
For The Period April 16, 2010 Through December 31, 2010
(Continued)

* Commissions:

4.25% on \$ 1,056,603
4% on \$ 1,508,541

** Special Taxing Districts:

Library District	\$	(127)
Health District		(37)
Extension District		(49)
Ambulance		<u>(41)</u>
Refunds Due Sheriff		<u><u>(254)</u></u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Jackson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 1, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$668,751

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2010 through December 31, 2010.

B. Limestone, Sand, and Gravel Taxes

The tangible property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 8, 2010 through December 31, 2010.

Note 4. Interest Income

The former Jackson County Sheriff earned \$369 as interest income on 2010 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of July 19, 2011, the former Sheriff owed \$114 in interest to the school district and \$178 in interest to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Smith, Jackson County Judge/Executive
Honorable Tim Fee, Former Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Jackson County Sheriff's Settlement – 2010 Taxes for the period April 16, 2010 through December 31, 2010, and have issued our report thereon dated July 19, 2011. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Jackson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Jackson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The former Jackson County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 19, 2011

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2010 Through December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Former Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay to the school district monthly “that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2010 tax collections, the former Sheriff earned a total \$369 in interest. The former Sheriff paid \$77 to the school board at the end of the year, however, the former Sheriff did not pay the final interest payment of \$114. The former Sheriff should also pay \$178 to the fee account for interest due. The former Sheriff should have complied with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school on a monthly basis.

Former Sheriff’s Response: Ok.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The Former Sheriff’s Office Lacked Adequate Segregation Of Duties

The former Sheriff’s office lacked adequate segregation of duties because the Sheriff’s bookkeeper maintained the ledgers, deposited the collections, collected funds from customers and prepared checks. We recommend the Sheriff either segregate these duties or implement steps to strengthen internal controls, such as:

- The former Sheriff should have had an independent person periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger.
- The former Sheriff should have had an independent person compare the monthly financial report to receipts and disbursements ledgers for accuracy.
- The former Sheriff should have had an independent person compare payments to the taxing districts.
- All disbursement checks should have been signed by two people, one being the former Sheriff.
- The former Sheriff should have personally mailed or delivered tax payments to the districts.
- The former Sheriff should have had an independent person periodically compare the monthly bank reconciliation to the balance in the checkbook.

Former Sheriff’s Response: Ok.

